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MONTHLY PROJECTIONS
December 1988

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For Release: January 17, 1989

WHAT DOES THE HUMPED YIELD-CURVE MEAN?

In the past few months, interest rates on short-term securities have continued to rise while interest rates with long-term maturities have begun falling. Although interest rates at the very short end of the yield structure remain below long-term yields, thus preventing the curve from being totally inverted, a significant hump in yields has developed beginning at one year of maturity and rising until seven years of maturity. Yields than fall through thirty years.

One explanation for this hump is that the Federal Reserve has been restraining reserve growth in commercial banks in order to reduce inflationary pressures. In the scramble for reserves, banks have been selling their short-term instruments, leading to increased supply and higher rates at that end of the yield spectrum. At the same time, investors have become encouraged that the Federal Reserve restraint will, in fact, lead to inflationary restraint. Thus, they are increasingly attracted to yields at the long end of the spectrum because the inflationary premiums necessary to compensate for purchasing power risk are coming down.

Unfortunately, the major fallacy in the above reasoning is that such Federal Reserve restraint would lead to a total inversion of the yield curve. If the point of restraint is bank reserves, sharply higher federal funds rates would lead to significant increases in treasury bill yields that eventually would exceed yields on long-term instruments. This does not explain why the yield curve is humped.

An alternative explanation can be based upon expectations of investors. As the year began, the consensus forecast was that inflationary pressures would continue to accelerate during the first half of 1989. This would be created by rising pressures on wage compensation. Such interest rate pressures may lead to further Federal Reserve restraint and higher short-term interest rates. Thus,

investors with short-term investment desires would seek an unusually short maturity for their portfolios. At the same time, the Federal Reserve restraint was expected to eventually slow economic activity and inflationary pressures. Thus, the long end of the maturity structure also would decline.

While such expectations probably are responsible for the current hump in the yield curve, there is no reason to expect that those expectations will be realized. It is unusual for inflationary pressures to reach a peak and then decline with only a moderation in the growth of the economy. This is especially so if the inflationary pressures are coming from the wage cost side of the system. In fact, short-term indicators of inflationary pressures have been modestly favorable. The fastest declining components of the leading indicators have been vendors' deliveries, sensitive prices, and the inflation-adjusted money stock. All these variables are leading indicators of inflationary trends. Of course, the sensitive indicators followed by the Journal of Commerce have accelerated in recent weeks. In addition, sensitive prices in the PPI at the earliest stages of processing also have intensified.

My own interpretation of these trends is that inflationary pressures early in 1989 will not be as high as the consensus forecast assumes. As a result, those investing in the long end of the yield spectrum will initially feel relieved by reduced inflationary prospects. However, price pressures by stage of processing suggest that underlying inflationary pressures have not receded. Indeed, inflation may intensify later in the year. If so, the Federal Reserve may tighten credit market conditions at that time. Thus, investments in long-term instruments probably only make sense if investors are willing to turn over their positions after garnering a near-term profit. If that proves to be correct, long-term interest rates will be rising faster than other components of the yield spectrum, especially the intermediate term securities, by mid-year.

Clearly, the humped yield curve suggests that the budgetary assumptions used in President Reagan's final budget submission to the Congress are inappropriate. In that document, treasury bill rates were expected to average 6.3%. They are now two percentage points higher than that level, which should add nearly $12 billion to the deficit. Also, inflationary pressures were expected to recede by nearly a percentage point. If our analysis is correct, inflation will average a half percentage point higher in 1989 than in 1988 and will be growing more than a percentage point more rapidly toward the end of the year. Because of cost of living adjustments contained in the budget, this would add another $10- $12 billion to the deficit.

Budget revenue estimates also show no awareness of the shifting financial structure that is sharply diminishing the taxable earnings from capital. More than $4 billion of tax incentives were used to encourage the infusion of new capital investment in the savings and loan industry. Also, corporate financial restructurings are converting equity into debt. The result will be a reduction in corporate tax payments. While there will be some offsetting increase in household tax payments through increased interest earnings, the marginal tax rate for households is lower than the marginal tax rate for the corporate sector. As a result, this corporate financial restructuring will probably reduce revenues by several billions. Clearly, corporate tax receipts will not increase by the $13 billion currently projected for the next fiscal year.

Probably a little should be said about the expenditures reductions proposed by President Reagan. Most of the 82 agencies that are slated for elimination in

the Reagan budget already have been considered by Congress. There is little likelihood that they will reverse their opinions and now decide to agree with the President. An additional $5 billion reduction in farm programs will require new farm legislation. There appears to be little desire to open the farm bill at this time. Providing less than the cost of living adjustment for government retirees almost certainly will be viewed as unfair and a precursor of similar action for social security recipients. As a result, such adjustments are not anticipated. Even the pay scale of government employees is open to some question. The budget proposes only a 2% increase for civilian personnel and a 3.5% increase for the military. Given wage gains projected to exceed 5% in the private economy, such proposals almost certainly will lead to turnover and reduced quality of the government work force.

When the expenditures proposals are adjusted for probable outcomes, including the likelihood that Congress will provide no inflation growth for defense, (the president proposed a 2% real growth in defense spending), expenditures probably will exceed budget proposals by $40 billion. With revenues falling short by nearly $10 billion as a result of corporate restructurings, the deficit should be $40 billion higher than the $90 billion proposed by President Reagan. This will not be in conformity with Gramm-Rudman guidelines, although it will be an improvement from the previous year.

Quarterly Profile of GNP

	1988-3	1988-4	1989-1	1989-2	1989-3	1989-4	1988 Annual	1989 Annual
Real:	2.5	1.9	5.2	2.0	2.3	1.9	3.8	2.9
Price:	4.7	4.3	4.3	4.2	4.8	4.8	3.3	4.5
Nominal:	7.3	6.3	9.6	6.4	7.3	6.8	7.3	7.5

Monthly Statistical Highlights for December 1988

Personal income +0.6%; savings rate 4.0%; personal consumption +0.9%; housing starts -4.4%; housing permits -3.1%; construction expenditures -0.7%; business inventories +0.5%; orders for durable goods -0.7%; orders for non-defense capital goods -4.0%; industrial production +0.1%; CPI +0.4%; consumption deflator +0.3%; leading indicators -0.3%; real GNP(AR) +2.4%.

Monthly Statistical Highlights for January 1989

Payroll employment +227,000; index of hours worked +0.2%; household employment +186,000; civilian unemployment rate 5.3%; personal income +0.4%; savings rate 4.2%; personal consumption +0.5%; retail sales -0.3%; auto sales 10.5 million units; housing starts UNC; housing permits -2.1%; construction expenditures -0.3%; business inventories +0.5%; orders for durable goods -0.8%; orders for nondefense capital goods -1.6%; industrial production +0.2%; CPI +0.3%; PPI +0.3%; consumption deflator +0.4%; leading indicators +0.2%; currency index +0.5%; equity index +5.1%; real GNP(AR) 11.6%; M1(AR) 11.4%; M2(AR) +5.1%.

Commentary

Employment - Once again, a surge in part-time employment led to a nearly 280,000 increase in payroll employment while the workweek actually declined. In manufacturing, the workweek fell by 0.2 hours. Therefore, the index of hours worked barely changed. Nevertheless, the index of hours worked increased 3.7% at annual rates during the fourth quarter. Assuming moderate gains in productivity and a drought effect of nearly 1.5 percentage points, this would lead to slightly more than 2% GNP growth.

Although civilian employment grew very slowly, even slower growth in the labor force led to a slight decline in the unemployment rate. It is unlikely that strong employment growth leading to significant declines in unemployment will develop in January.

Equally significant, the hourly earnings index showed only a modest increase. For the quarter, the hourly earnings index rose 4.1%. This is an acceleration from earlier in the year, but the rate of wage increase remains modest. Although these employment figures are consistent with an economy slowing significantly during the quarter, our GNP components suggest that the greatest slowing is occurring in inventory accumulations. This reduction may be the result of expected weak Christmas sales, expectations that were not justified. As a result, production should spurt early in 1989.

Personal Income and Outlays - An unusually sharp drop in farm subsidies, leading to only $15 billion in farm income, accounted for a rare decline in personal income during November. The wage component also was sluggish. As a result of the sharp decline in farm earnings, personal savings dropped sharply. Of course, some gains in farm income from these unusually low levels should be expected in the months ahead. The wage component, on the other hand should continue to grow at a sluggish rate as long as part-timers are the major thrust behind what employment growth is materializing.

The advanced retail sales report for December did not capture the sharp spurt in auto sales that developed in the last ten days of the month. When more complete information is available next month, a significant upward revision is anticipated in retail sales estimates. A decline in purchases of food products possibly reflects some weakening of food prices in December. By the time the personal income report is released, more information should be available on automobile sales, leading to a significant spurt in sales of durable goods. A return to more appropriate winter weather also should lead to a rebound in service expenditures growth. Thus, consumer outlays are expected to exceed previously forecasted values during the fourth quarter. In effect, while economic activity was exhibiting anticipated strength, consumer spending was stronger while inventory accumulations were weaker than anticipated. This usually is a prescription for stronger production activity ahead.

Construction - Favorable building weather was apparent in the construction statistics for November. Housing permits were stronger than anticipated as starts of apartment units took advantage of the favorable weather. In addition, a surge in sales on the West Coast led to a spurt in single-family activity. However, sharply weakening prices and sales in New England should impact single-family starts in December and January. More seasonal weather also should significantly slow housing activity during the winter months.

Even with favorable weather conditions, nonresidential construction fell in November. This suggests that further reductions will be taking place in that sector in the months ahead. Some correction from weather-induced public construction activity is expected in December, but significant activity in single-family housing should persist into the winter months. This strength in housing is only temporary, however. Although activity currently is well above forecasted levels, activity is expected to slow and fall below forecasted levels during the second half of 1989. This will occur as interest rates rise at that time.

Inflation in construction materials remains modest. The construction cost index showed no increase in November after growing 0.2% in the previous month. Only modest increases in construction costs are anticipated during next year.

Business Activity - Commercial aircraft continued to buoy orders for capital goods in November. Those orders should sharply diminish in the next few months. As a result, a downtrend in orders for nondefense capital goods should materialize. However, machinery orders appear to be strengthening. Also, commercial aircraft orders should rebound later in the year. This suggests that shipments for nondefense capital goods will remain strong all year. Although shipments slowed slightly in November, this must be the result of temporary production restraints rather than the beginning of any serious downtrend.

Defense shipments, on the other hand, are continuing to show little growth following a summer spurt. Orders have improved slightly, which should lead to some acceleration in shipments. Nevertheless, shipments probably will only slightly exceed the rate of inflation over the next twelve months. Even slower shipments are expected beyond that.

Business inventories grew surprisingly slowly in October as a result of a decline in retail inventories. Retailers apparently became so cautious that they were willing to lose sales rather than overstock. This cautiousness probably led to only modest inventory accumulations during the fourth quarter. However, as sales exceeded anticipations, a more vigorous inventory buildup is expected early in 1989.

The employment situation indicated that activity slowed significantly in December. Production of consumer goods and defense goods both may have declined modestly in the month. However, a rebound in utilities, industrial materials, and business equipment probably allowed some growth in overall industrial production. Strong auto sales and the liquidation of retail inventories probably will lead to a rebound in industrial activity in the next few months.

Prices - The CPI grew even slower than had been anticipated in November as a result of larger-than-expected discounting of clothing prices. There continues to be a shift in seasonal prices in the clothing sector, which should lead to further modest discounting in December and January. Next year's seasonals probably will more fully capture the sharp surge in prices when new fashions are released followed by price discounting a few months later. Excluding the clothing component, the CPI has been growing in the 4% to 4.5% range that has prevailed since 1987 began.

The PPI is showing a bit more price intensity. A sharp increase in tobacco prices in December almost certainly will cause a modest spurt in the CPI in December and January. The removal of automobile incentives also should be

reflected at the CPI level. However, sharp increases in energy components may have very little effect at the finished goods level. Thus, industrial commodities prices are growing faster than finished goods prices at the current time. Apparently, ample supplies of gasoline assure no change in that component until the driving season begins in the spring. If OPEC prices are declining at that time, as expected, energy prices may not be a factor in inflationary prospects for 1989.

Our current projections suggest that prices will continue along their current growth path through the first half of 1989. An acceleration then is anticipated in the second half largely as a result of higher wage cost pressures. In addition, the dollar, which has held its value in the last thirteen months, is expected to begin eroding in value in the second half of the year.

Miscellaneous - The trade deficit apparently worsened at the end of 1988. Both slowing in the growth of exports and acceleration in imports appear to be responsible. In addition, oil prices again are rising, exerting upward pressures upon that import component. However, the greatest reason for the higher trade deficit estimates in our forecast is the continued strength of the dollar. As a result of the dollar's strength, the competitiveness of American manufacturing has not improved during the past year. As foreign investors become aware that the merchandise trade balance no longer is declining significantly, the dollar is again expected to fall. Indeed, we are currently projecting that the dollar will fall more during 1989 than originally anticipated. Part of this decline will occur when it is also recognized that interest rates in the United States are not rising significantly during the first half of this year.

Higher oil prices will be reflected in a surge in the inventory valuation adjustment during the early months of 1989. This will have an adverse effect upon adjusted profits. However, stronger growth in nonfarm activity than anticipated in the quarterly forecast along with continued wage restraint should lead to higher operating profits less tax liabilities than originally projected.

As a result of improved profitability and reduced interest rate pressures, equity values should rise significantly early in the year. While equity values appear to be above what our valuation estimates suggest, no correction in this excess is likely while adjusted profits are rising and long-term interest rates are declining. Another 10%-15% increase in equity values is possible in the early months of 1989. Later in the year, however, rising interest rates and wage pressures along with slower economic growth should cause a decline in adjusted profits. In that context, equity values should decline.

Financial Markets

Clearly, President Reagan's budget requests will not be enacted. In addition, the interest rate estimates are understating interest expenditures by more than $12 billion while tax incentives associated with the savings and loans bailout and LBO financing restructuring, which substitutes debt for equity, almost certainly assures a substantial shortfall in the corporate tax receipts estimated in the Reagan budget - probably as much as $10 billion. Therefore, government deficits in excess of $140 billion appear likely next year. However,

the budget deficit currently is in excess of $155 billion. Therefore, some modest deficit reduction could develop in the latter months of 1989.

However, these deficit estimates do not include borrowings by bank agencies in order to ease cash flow problems in managing thrift industry difficulties. The budget assumes $10 billion of additional borrowings, but borrowings of twice that magnitude probably will surface. As a result, total government borrowings may rise slightly next fiscal year.

Because of strong consumer spending and continuing growth in housing purchases, especially on the West Coast, there appears to be little improvement in the net savings behavior of the household sector. Installment credit is continuing to grow about 8%, slightly faster than the growth in disposable income. Later in 1989, falling housing sales probably will cause a reduction in the growth of mortgage debt, leading to a rise in effective household savings.

Together, the household and government sectors suggest little direction for interest rate pressures early in the year but some moderation in those pressures in the latter stages of the year.

However, corporate borrowings for capital spending and inventory purposes are expected to intensify as the year progresses. Capital spending programs appear to be stronger earlier in the year than in the latter part of the year. This will coincide with acceleration in corporate cash flow, suggesting that the corporate sector may generate little upward pressure on the credit markets in winter and early spring. If capital spending slows significantly later in the year, it is conceivable that the corporate sector may not exert upward pressures on credit markets throughout the year. However, a more likely condition is that capital spending will remain moderately strong throughout the year while rising inflationary pressures in the second half of the year will encourage inventory accumulation. At the same time, rising interest rates and wage pressures will diminish the growth in corporate cash flow. The net effect would be a significant squeeze on corporate liquidity leading to gains in outside borrowings. Thus, the corporate sector's borrowing needs in the second half of the year probably will exert significant upward pressures upon interest rates.

Of course, foreign investors could offset these domestic credit market pressures in 1989. With a strong dollar and high real rates of interest, foreign investors probably will be attracted to American assets. Thus, foreign investors could hold interest rates down or even force them slightly lower. However, as trade balances start to deteriorate, foreign investors are expected to become increasingly disenchanted with their American investments. If they withdraw from American assets in the second half of the year, interest rate pressures will move significantly higher in order to retain those assets.

As a result, the consensus forecast of rising interest rates followed by falling rates later in the year is unlikely. Instead, interest rates probably will remain unchanged or even drift slightly downward early in the year. When corporate borrowings intensify later in the year for inventory purposes, however, domestic pressures will increase. In addition, some dollar weakness could lead to foreign investors withdrawing from the American markets, at least until real rates are pushed upward. Thus, rising interest rates in the second half of the year are likley.

Equity Markets - As mentioned above, economic conditions are favorable for an increase in equity values early in 1989. Interest rates should remain stable or

even drift slightly lower in terms of long-term maturities while corporate profits are expected to continue rising. Later in the year, however, economic conditions are expected to reverse. Thus, a Dow Jones rise to more than 2300 in the spring could be followed by a dip to less than 2000 by late fall.

At the present time, the industries still showing capability of generating significant profit gains are chemicals, nonelectrical machinery, commercial aircraft, and some nonferrous metals. Strong cash flow suggests that utilities also will perform well early in the year while some regional banks should do satisfactorily. In addition, many consumer groups should do well because of stronger consumer activity than previously anticipated. On the other hand, the plastics, rubber, paper and textile industries no longer are showing the capacity pressures that helped to improve their profit margins earlier in the year. Therefore, those groups will struggle. Also, the technology group is suffering some sales erosion as potential customers are waiting for new technologies to become available. The technology groups are more likely to perform well in the second half of the year, but that will be bucking a downward trend in overall equity values.

Unfortunately, the current desire to invest in cyclical stocks could be treacherous, especially if the economy slows in the second half of the year. Furthermore, consumer-based issues, which will be responding to better-than-anticipated sales early in the year, could come under increasing downward valuation pressures as the 1989 Christmas season approaches. Thus, substantial adjustments probably will be necessary after mid-year to insure that consumer and cyclical stocks are not heavily weighted in portfolios. Nevertheless, the first half of 1989 should prove to be advantageous to most equity investors.

EMPLOYMENT

	Payroll Employment		Index of Hours Worked		Household Civilian Employment		Civilian Unemployment Rate		Hourly Earnings Index	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1988	106271	106271	126.4	126.4	115059	115059	5.4	5.4	179.3	179.3
August	106440	106425	125.5	125.5	115180	115203	5.6	5.6	179.6	179.5
September	106695	106737	126.0	126.0	115328	115370	5.4	5.4	180.4	180.3
October	106895	106973	126.3	127.1	115587	115573	5.3	5.3	181.0	181.5
November	107144	107377	126.7	127.0	115895	115947	5.2	5.4	181.5	181.4
December	107393	107656	127.1	127.1	116207	116009	5.2	5.3	182.1	181.7
January 1989	107608	107883*	127.4	127.3*	116443	116195*	5.1	5.3*	182.8	182.2*
February	107840	108136	127.7	127.6	116666	116463	5.0	5.2	183.5	182.6
March	108072	108456	127.9	128.0	116889	116756	5.0	5.1	184.3	183.1
April	108246	108710	128.1	128.3	117003	117003	5.0	5.0	184.9	183.6
May	108419	108983	128.4	128.6	117219	117264	4.9	5.0	185.4	184.2
June	108592	109322	128.5	129.0	117435	117554	5.0	4.9	186.0	184.7
July	108756	109529	128.7	129.2	117568	117756	4.9	4.9	186.7	185.3
August	108913	109792	128.9	129.5	117723	118006	4.9	4.8	187.4	185.9
September	109070	109962	129.1	129.7	117884	118185	4.8	4.8	188.2	186.5
October	109216	110169	129.2	129.9	118005	118382	4.8	4.8	188.9	187.1
November	109352	110300	129.3	130.0	118229	118543	4.9	4.9	189.5	187.8
December	109488	110395	129.2	130.1	118445	118644	4.9	4.9	190.2	188.5

PERSONAL INCOME

	Personal Income		Wage & Salary		Personal Savings		Disposable Income		Personal Outlays	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1988	4.071	4.075	2.452	2.452	141.0	149.1	3.487	3.491	3.346	3.342
August	4.083	4.092	2.457	2.459	132.4	133.3	3.497	3.506	3.365	3.373
September	4.103	4.115	2.471	2.475	147.5	154.5	3.513	3.526	3.366	3.371
October	4.133	4.184	2.484	2.512	148.0	182.9	3.535	3.587	3.387	3.404
November	4.158	4.175	2.500	2.520	152.0	153.3	3.557	3.577	3.405	3.423
December	4.182	4.200*	2.516	2.528*	157.2	145.1*	3.579	3.599*	3.422	3.454*
January 1989	4.204	4.215	2.535	2.540	173.4	151.7	3.612	3.623	3.439	3.471
February	4.238	4.239	2.550	2.554	168.1	161.2	3.630	3.648	3.462	3.487
March	4.270	4.264	2.565	2.570	163.0	167.1	3.645	3.672	3.482	3.505
April	4.286	4.289	2.580	2.585	159.2	169.0	3.661	3.693	3.502	3.524
May	4.300	4.314	2.592	2.601	157.4	170.8	3.678	3.715	3.521	3.544
June	4.314	4.341	2.604	2.618	155.5	176.6	3.695	3.739	3.540	3.562
July	4.340	4.364	2.619	2.632	152.3	180.6	3.711	3.758	3.559	3.577
August	4.365	4.391	2.634	2.649	149.2	179.8	3.725	3.782	3.576	3.602
September	4.390	4.415	2.649	2.663	146.3	181.1	3.739	3.802	3.593	3.621
October	4.408	4.439	2.660	2.678	146.9	185.0	3.756	3.822	3.609	3.637
November	4.429	4.462	2.673	2.691	148.5	194.5	3.778	3.841	3.630	3.647
December	4.450	4.487	2.687	2.705	145.1	195.1	3.797	3.862	3.652	3.667

Fore. = November Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

CONSUMPTION

	Personal Consumption		Durables		Nondurables		Services		Consumption Real	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1988	3245.3	3238.9	454.4	448.5	1053.0	1053.0	1737.9	1737.4	2600.1	2594.8
August	3263.4	3271.1	454.8	455.5	1059.6	1064.4	1749.0	1751.2	2608.1	2615.1
September	3264.1	3270.2	451.7	450.8	1060.0	1065.0	1752.4	1754.4	2595.8	2599.1
October	3283.7	3302.9	454.3	450.5	1065.6	1072.5	1763.8	1779.9	2601.1	2613.6
November	3301.3	3321.6	457.2	457.4	1067.9	1079.4	1776.2	1784.8	2607.4	2619.7*
December	3319.0	3352.0*	455.3	474.1*	1070.3	1084.3	1793.4	1793.6*	2613.6	2634.9
January 1989	3338.3	3369.0	460.1	474.6	1073.5	1089.5	1804.7	1804.9	2620.5	2638.5
February	3356.5	3384.0	463.7	473.2	1077.4	1094.5	1815.4	1816.3	2623.9	2641.1
March	3374.2	3401.7	467.0	476.2	1081.9	1098.6	1825.3	1826.9	2627.3	2645.0
April	3401.3	3420.3	469.9	479.5	1088.5	1102.0	1842.9	1838.8	2635.9	2650.6
May	3423.6	3440.0	473.4	481.0	1097.7	1108.6	1852.5	1850.4	2537.2	2655.3
June	3421.0	3457.1	459.8	481.1	1106.8	1115.7	1854.4	1860.3	2630.8	2658.2
July	3447.5	3471.9	465.6	478.4	1112.4	1123.6	1869.5	1869.9	2637.5	2657.6
August	3468.8	3495.6	470.4	483.1	1113.1	1130.0	1885.3	1882.5	2646.2	2664.7
September	3489.9	3514.2	475.1	483.2	1114.0	1135.4	1900.8	1895.6	2655.0	2669.0
October	3506.2	3529.7	473.4	481.2	1120.6	1141.2	1912.2	1907.3	2653.2	2669.7
November	3520.7	3538.6	470.2	482.5	1129.1	1146.7	1921.4	1909.4	2654.4	2665.7
December	3534.9	3558.4	470.1	483.5	1137.7	1152.3	1927.1	1922.6	2655.7	2669.2

RETAIL SALES

	Retail Sales		Non-Auto Durables		Auto (Million Units)		Nondurable Sales		Auto Sales	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1988	134.34	134.34	20.86	20.86	10.8	10.8	83.59	83.59	29.89	29.89
August	134.18	134.76	20.79	20.87	10.6	10.6	84.16	84.50	29.23	29.39
September	133.66	134.34	20.87	20.82	10.7	10.5	84.14	84.54	28.66	28.97
October	134.40	136.53	20.79	20.75	10.2	9.8	84.59	85.47	29.03	30.31
November	135.10	138.05	20.67	21.05	10.5	10.2	84.77	86.08	29.66	30.92
December	135.64	140.19*	20.85	21.02*	10.7	11.1*	84.96	86.32*	29.83	32.85*
January 1989	136.06	139.78	20.91	20.98	10.7	10.5	85.21	86.73	29.94	32.07
February	136.57	140.65	20.92	21.14	10.8	10.6	85.52	87.13	30.13	32.38
March	137.09	141.32	21.16	21.23	10.7	10.7	85.88	87.46	30.05	32.63
April	137.83	141.97	21.21	21.30	10.7	10.8	86.40	87.73	30.22	32.94
May	138.84	142.65	21.38	21.38	10.7	10.8	87.13	88.25	30.33	33.02
June	138.66	143.24	20.86	21.53	10.5	10.7	87.85	88.82	29.95	32.89
July	139.35	143.56	20.97	21.46	10.5	10.6	88.30	89.45	30.08	32.65
August	139.53	144.60	21.23	21.48	10.3	10.8	88.35	89.96	29.95	33.16
September	139.69	145.04	21.46	21.50	10.2	10.5	88.43	90.39	29.80	33.15
October	140.86	145.28	21.35	21.43	10.2	10.3	88.95	90.85	30.56	33.00
November	141.18	145.87	21.10	21.45	10.1	10.3	89.62	91.29	30.46	33.13
December	142.15	146.42	20.99	21.38	10.3	10.4	90.31	91.73	30.85	33.31

Fore. = November Forecast
C.E. = Current Expectations
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CONSTRUCTION

	Housing Starts		Single Family Starts		Housing Permits		Construction Expenditures (Current)		Construction Expenditures (Real)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1988	1.477	1.477	1.075	1.068	1.420	1.420	398.3	401.8	343.4	346.4
August	1.431	1.461	1.068	1.078	1.464	1.464	396.1	403.2	341.7	347.6
September	1.453	1.467	1.050	1.045	1.399	1.394	401.6	406.9	345.9	349.7
October	1.465	1.542	1.067	1.112	1.413	1.516	399.2	407.8	343.3	349.8
November	1.430	1.563	1.052	1.151	1.378	1.517	397.4	411.1	341.1	352.6
December	1.433	1.495*	1.043	1.105*	1.385	1.470*	395.6	408.2*	339.0	349.2*
January 1989	1.442	1.495	1.056	1.093	1.372	1.439	398.9	406.8	341.5	347.4
February	1.435	1.462	1.071	1.065	1.359	1.386	401.3	404.6	343.0	344.9
March	1.463	1.448	1.062	1.072	1.384	1.374	403.8	402.7	344.5	343.0
April	1.439	1.466	1.045	1.070	1.359	1.379	403.8	402.3	344.0	342.1
May	1.442	1.456	1.036	1.062	1.365	1.385	403.4	403.3	343.6	342.7
June	1.426	1.452	1.030	1.053	1.329	1.362	403.3	403.6	342.9	342.3
July	1.448	1.429	1.033	1.026	1.330	1.351	404.6	402.0	343.5	340.4
August	1.450	1.382	1.035	0.994	1.353	1.308	404.7	400.1	342.7	337.9
September	1.431	1.362	1.026	0.973	1.342	1.292	404.5	397.2	341.6	334.9
October	1.406	1.359	1.011	0.965	1.316	1.278	404.6	395.8	341.1	333.2
November	1.394	1.361	0.989	0.962	1.309	1.279	404.7	396.3	340.7	332.7
December	1.380	1.350	0.964	0.966	1.296	1.284	404.4	396.8	339.8	332.6

	Non-Residential		Public Construction		Residential Construction	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1988	129.7	129.7	79.2	79.3	189.4	192.8
August	127.8	130.4	77.5	76.9	190.8	196.0
September	129.4	130.3	79.5	79.7	192.7	196.9
October	128.8	130.9	79.8	77.9	190.6	199.0
November	128.1	129.7	80.0	80.9	189.3	200.4
December	127.5	128.4*	80.1	79.5*	188.0	200.3*
January 1989	128.6	128.1	80.8	79.8	189.5	198.9
February	129.2	128.3	81.4	80.5	190.7	195.8
March	129.8	128.0	82.0	80.3	192.0	194.4
April	129.5	127.4	82.3	80.9	192.0	194.0
May	129.3	127.6	82.5	81.3	191.6	194.4
June	129.3	127.1	82.8	81.6	191.2	194.9
July	129.0	126.6	83.0	82.3	192.6	193.1
August	128.5	126.3	82.9	82.5	193.3	191.3
September	128.0	125.6	83.3	83.0	193.2	188.6
October	128.4	125.7	83.6	83.4	192.6	186.7
November	129.0	125.4	83.9	83.7	191.8	187.2
December	129.3	125.5	84.1	83.9	191.0	187.4

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BUSINESS ACTIVITY

	Manufacturers' Inventories		Durable Goods Orders		Non-Defense Capital Goods Orders		Non-Defense Capital Shipments	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1988	343.8	343.8	116.11	116.11	36.21	36.21	32.01	32.01
August	345.6	345.8	122.73	122.81	38.71	38.81	32.34	32.41
September	347.3	347.8	117.70	119.32	34.09	34.86	31.95	32.52
October	349.0	349.4	119.23	122.79	34.65	34.62	32.37	32.69
November	350.3	350.9	118.51	122.77	34.26	35.67	32.65	32.43
December	351.6	353.4*	118.26	121.85*	34.12	34.23*	32.98	32.47*
January 1989	353.3	355.2	116.94	120.93	33.04	33.69	32.86	32.62
February	355.4	356.9	117.72	121.27	33.26	33.78	33.07	32.85
March	357.5	358.4	118.84	123.65	33.49	34.23	33.29	33.01
April	359.0	360.1	119.93	123.86	33.76	34.42	33.41	33.17
May	360.2	361.6	119.52	124.91	33.95	34.65	33.48	33.26
June	361.5	363.3	120.21	125.14	33.28	34.72	33.53	33.45
July	364.0	365.2	119.46	124.21	33.72	34.53	33.60	33.71
August	366.3	367.0	119.93	126.03	34.16	34.96	33.69	33.80
September	368.5	368.6	119.65	126.42	34.20	35.12	33.78	33.97
October	370.3	370.5	119.27	124.85	34.17	34.85	33.92	34.10
November	372.5	372.4	119.04	124.56	34.13	34.99	34.06	34.34
December	374.8	373.9	117.86	124.70	33.65	35.16	34.05	34.55

	Business Inventories		Defense Shipments		Industrial Production		Capacity Utilization	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1988	735.9	735.9	8.66	8.66	138.1	138.0	83.8	83.7
August	741.7	743.9	9.02	9.04	138.3	138.5	83.8	83.8
September	744.7	750.3	8.74	8.83	138.3	138.6	83.6	83.7
October	749.6	751.4	8.50	8.43	138.7	139.3	83.8	84.0
November	754.0	754.4*	8.55	8.55	139.1	139.9	83.9	84.2
December	758.4	757.9	8.60	8.63*	139.5	140.0*	84.1	84.1
January 1989	761.5	761.5	8.61	8.65	140.0	140.3	84.3	84.2
February	764.7	765.3	8.69	8.72	140.5	140.7	84.5	84.4
March	768.0	769.1	8.76	8.70	141.0	141.2	84.7	84.6
April	771.3	773.0	8.80	8.78	141.2	141.6	84.6	84.8
May	775.4	776.9	8.84	8.84	141.2	142.1	84.3	85.0
June	779.4	780.5	8.90	8.90	141.8	142.7	84.5	85.2
July	783.5	783.8	8.79	8.85	142.4	143.1	84.8	85.3
August	787.2	787.5	8.84	8.92	143.2	143.4	85.2	85.4
September	791.0	790.9	8.70	8.90	144.0	143.7	85.5	85.5
October	795.6	795.3	8.81	9.01	144.3	143.9	85.5	85.5
November	800.3	799.9	8.96	8.94	144.4	144.1	85.4	85.5
December	805.0	805.1	9.11	9.10	144.2	144.2	85.1	85.4

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PRICES

	CPI-U (seasonally adjusted)		PPI Finished Goods (seasonally adjusted)		PPI-Industrial Commodities (unadjusted)		Estimated GNP Deflator	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1988	118.5	118.5	108.3	108.3	106.7	106.8	121.9	122.0
August	119.0	119.0	108.9	108.9	107.1	107.1	122.2	122.3
September	119.4	119.4	109.3	109.3	106.9	106.9	122.7	122.8
October	119.9	119.9	109.2	109.5	107.2	107.1	123.0	123.3
November	120.4	120.3	109.4	109.8	107.5	107.4	123.3	123.7
December	120.8	120.8*	109.7	110.3*	107.8	108.1	123.6	124.1
January 1989	121.1	121.1	110.3	110.6	108.0	108.5	124.1	124.6
February	121.4	121.5	110.6	111.0	108.1	108.9	124.6	125.0
March	121.8	121.9	110.9	111.4	108.2	109.0	125.2	125.5
April	122.3	122.3	111.2	111.6	108.7	109.2	125.6	125.9
May	122.8	122.9	111.5	111.9	109.4	109.6	125.9	126.3
June	123.4	123.4	111.8	112.3	110.1	110.0	126.2	126.8
July	124.0	123.9	112.2	112.6	110.5	110.3	126.7	127.3
August	124.6	124.4	112.6	113.0	110.8	110.7	127.1	127.9
September	125.2	124.9	113.0	113.4	110.5	110.0	127.5	128.3
October	125.7	125.4	113.4	113.9	111.2	111.3	128.0	128.8
November	126.2	125.8	113.9	114.2	111.9	111.8	128.4	129.3
December	126.8	126.4	114.5	114.7	112.6	112.5	128.8	129.9

	Consumption Deflator		Consumer Durables		Consumer Nondurables		Consumer Services		Implicit Construction Deflator	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1988	124.8	124.8	110.1	110.0	116.9	116.9	135.1	135.1	116.0	116.0
August	125.1	125.1	110.4	110.4	117.1	117.0	135.5	135.5	115.9	115.9
September	125.7	125.8	110.6	110.6	117.9	117.9	136.1	136.2	116.1	116.4
October	126.2	126.4	110.8	111.0	118.2	118.3	136.7	136.8	116.3	116.6
November	126.6	126.8*	110.7	111.2*	118.5	118.7*	137.2	137.4*	116.5	116.6
December	127.0	127.2	110.9	111.4	118.9	119.2	137.8	138.0	116.7	116.9*
January 1989	127.4	127.7	111.2	111.6	119.2	119.6	138.5	138.6	116.8	117.1
February	127.9	128.1	111.5	111.8	119.5	120.0	139.0	139.1	117.0	117.3
March	128.4	128.6	111.8	112.1	119.8	120.4	139.5	139.7	117.2	117.4
April	129.0	129.0	112.0	112.3	120.5	120.7	140.1	140.3	117.4	117.6
May	129.8	129.6	112.0	112.5	121.3	121.1	140.8	141.0	117.4	117.7
June	130.0	130.1	112.2	112.7	122.0	121.6	141.5	141.6	117.6	117.9
July	130.7	130.6	112.5	113.0	122.3	122.1	142.0	142.3	117.8	118.1
August	131.1	131.2	112.9	113.3	122.6	122.7	142.6	142.9	118.1	118.4
September	131.4	131.7	113.3	113.5	122.9	123.1	143.2	143.5	118.4	118.6
October	132.1	132.2	113.5	113.8	123.6	123.6	143.8	144.1	118.6	118.8
November	132.6	132.7	113.4	114.1	124.2	124.2	144.4	144.7	118.8	119.1
December	133.1	133.3	113.6	114.4	124.8	124.8	145.0	145.3	119.0	119.3

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MISCELLANEOUS

	Merchandise Trade Balance		Leading Indicators		Estimated GNP		Estimated GNP (1982 $)		IVA (annual rate)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1988	-9.98	-9.98	192.7	192.4	4888	4891	4010	4009	-27.2	-28.6
August	-10.53	-10.53	193.4	193.4	4900	4906	4010	4011	-23.7	-30.4
September	-8.97	-8.57	193.6	192.8	4915	4930	4006	4015	-18.5	-33.3
October	-9.28	-8.88	194.2	193.6	4935	4959	4012	4022	-20.6	-27.4
November	-9.65	-10.18*	194.5	193.2	4954	4982	4018	4027	-21.9	-23.7
December	-10.02	-10.16	193.7	192.6*	4974	5007	4024	4035	-23.2	-25.6
January 1989	-8.76	-9.43	194.0	193.0	5016	5074	4042	4072	-16.5	-30.8
February	-7.93	-9.65	194.4	193.2	5066	5103	4066	4082	-14.8	-31.3
March	-7.39	-9.27	194.0	192.9	5107	5125	4079	4084	-13.0	-27.4
April	-7.05	-9.56	193.5	192.5	5127	5146	4082	4087	-17.6	-23.5
May	-7.38	-10.13	193.1	192.9	5148	5178	4089	4100	-19.9	-20.4
June	-7.34	-9.52	193.5	193.4	5169	5213	4096	4111	-22.3	-21.6
July	-8.21	-9.26	193.8	193.3	5194	5239	4099	4115	-22.1	-21.8
August	-8.46	-9.05	193.2	193.0	5221	5272	4108	4122	-22.6	-24.3
September	-8.65	-8.84	192.7	192.5	5248	5301	4116	4132	-23.1	-26.6
October	-7.73	-8.53	192.0	192.0	5279	5330	4124	4138	-26.9	-28.2
November	-7.27	-8.26	191.6	191.1	5301	5358	4129	4144	-28.0	-28.6
December	-6.80	-7.94	192.1	191.3	5323	5384	4133	4145	-29.1	-30.1

	Currency Index		Adjusted Profits		30-Year Government Bonds		New York Composite	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1988	96.53	96.53	191.2	187.2	9.14	9.14	152.12	152.12
August	98.29	98.29	188.5	185.4	9.32	9.32	149.25	149.25
September	97.91	97.91	183.7	183.0	9.06	9.06	151.47	151.47
October	94.63	95.10	173.5	186.4	9.01	8.89	157.63	156.36
November	90.46	91.91	166.7	187.9	9.17	9.02	160.26	152.67
December	87.01	92.65	160.5	184.3	9.30	9.01	160.63	155.83*
January 1989	85.56	93.15*	169.8	187.5	9.24	8.92*	161.25	163.73
February	88.42	91.26	173.8	189.2	9.26	8.73	162.29	167.21
March	91.26	91.02	177.7	190.5	9.25	8.66	162.05	165.14
April	92.15	89.65	175.2	190.3	9.30	8.72	154.43	165.26
May	90.45	87.43	173.8	188.1	9.33	8.89	149.62	163.68
June	91.03	86.11	172.5	186.4	9.52	9.06	145.15	166.25
July	91.72	84.23	174.0	186.7	9.65	9.24	143.65	162.43
August	92.43	85.46	174.9	184.5	9.54	9.49	152.43	163.72
September	93.06	86.62	173.6	182.3	9.59	9.67	153.11	158.65
October	92.20	86.29	169.4	180.1	9.73	9.72	149.25	155.27
November	89.25	85.53	167.8	180.8	9.88	9.70	147.85	153.52
December	86.93	84.95	166.2	178.5	10.03	9.71	142.25	150.46

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FINANCIAL MARKETS

	Monetary Base		M1		M2		Federal Funds		T-Bills (6 Mos.)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1988	280.3	280.2	782.4	782.3	3025.9	3025.8	7.75	7.75	6.99	6.99
August	281.1	281.1	782.5	782.5	3031.8	3031.6	8.01	8.01	7.36	7.36
September	282.1	282.3	782.5	782.3	3035.1	3034.1	8.19	8.19	7.43	7.43
October	284.0	283.3	785.3	783.5	3043.5	3037.5	8.25	8.30	7.36	7.50
November	285.3	285.0	792.6	783.6	3079.0	3054.0	8.23	8.35	7.37	7.76
December	286.6	285.0	799.3	787.5	3106.5	3066.2	8.22	8.76	7.37	8.24
January 1989	288.4	288.1*	803.1	794.6*	3120.4	3078.9*	8.20	9.02*	7.35	8.38*
February	290.2	289.3	805.3	797.9	3134.5	3090.5	8.18	9.06	7.36	8.41
March	291.9	290.6	807.6	801.8	3148.6	3106.0	8.22	9.11	7.37	8.37
April	293.7	291.9	811.9	805.1	3167.7	3121.5	8.24	9.16	7.40	8.34
May	295.0	293.3	817.7	808.8	3188.6	3140.2	8.25	9.08	7.46	8.29
June	296.3	295.0	823.2	813.3	3208.9	3160.7	8.35	9.22	7.55	8.42
July	298.0	296.7	826.9	818.2	3229.3	3183.6	8.33	9.37	7.52	8.59
August	299.5	298.2	831.4	822.1	3249.1	3202.7	8.30	9.56	7.40	8.73
September	300.9	299.6	834.9	826.0	3268.8	3221.8	8.36	9.73	7.42	8.85
October	302.5	301.1	838.6	830.0	3281.4	3241.1	8.55	9.89	7.69	8.99
November	304.3	302.4	842.9	833.4	3299.1	3257.3	8.92	9.96	7.89	9.13
December	306.0	303.7	847.3	836.7	3317.6	3276.8	9.03	9.93	8.01	9.20

	Aaa (Seasoned)		Municipals (Bond Buyer)		(3 Month) Commercial Paper		90 Day CD's		Prime Rate	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1988	9.96	9.96	7.76	7.76	7.82	7.82	7.94	7.94	9.29	9.29
August	10.11	10.11	7.79	7.79	8.26	8.26	8.35	8.35	9.84	9.84
September	9.82	9.82	7.66	7.66	8.17	8.17	8.23	8.23	10.00	10.00
October	9.68	9.51	7.49	7.47	8.23	8.24	8.30	8.36	10.00	10.00
November	10.01	9.45	7.80	7.46	8.24	8.66	8.32	8.78	10.00	10.05
December	10.17	9.57	7.85	7.61	8.29	9.11	8.38	9.25	10.00	10.50
January 1989	10.05	9.63*	7.82	7.43*	8.25	9.02*	8.33	9.18*	10.00	10.50
February	10.08	9.61	7.83	7.40	8.26	8.96	8.35	9.12	10.00	10.50
March	10.10	9.58	7.87	7.36	8.24	8.95	8.33	9.09	10.00	10.50
April	10.15	9.65	7.92	7.43	8.27	9.06	8.40	9.20	10.00	10.86
May	10.20	9.84	7.95	7.59	8.30	9.03	8.41	9.16	10.00	11.00
June	10.24	10.01	7.98	7.75	8.37	9.27	8.46	9.38	10.00	11.00
July	10.33	10.23	8.04	7.93	8.39	9.43	8.50	9.53	10.00	11.00
August	10.38	10.36	8.08	8.01	8.42	9.62	8.56	9.72	10.00	11.34
September	10.45	10.49	8.15	8.10	8.45	9.80	8.60	9.91	10.00	11.50
October	10.62	10.55	8.31	8.13	8.66	9.95	8.73	10.04	10.46	11.72
November	10.73	10.51	8.40	8.10	9.03	9.92	9.15	10.02	10.75	12.00
December	10.82	10.53	8.46	8.06	9.15	9.90	9.26	10.00	11.00	12.00

Fore. = November Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.